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ANNUAL REPORT

FOR THE YEAR ENDED
DECEMBER 31, 1940



Northern Ohio Telephone Co.
Bellevue, Ohio

Annual Report
of the
Northern Ohio Telephone Company - Bellevue, Ohio
For the Year 1940

To The Stockholders:

The general business pattern for the first half of 1940 was similar to that of 1939 in that industrial activity declined sharply during the first quarter, but recovered by early summer. The fall of the Republic of France in June centered our attention on national rearmament and from then until the end of the year this factor created an increasing cycle of business activity.

Peak industrial production which affects large centers of population is reflected in the communities in which this company serves in a lesser degree and after an interval of time. In many of our larger towns we have exceeded our previous high in number of connected telephones but sufficient subscribers in the smaller communities and rural territory will continue to remain a problem until telephone service can be made a necessity for profitable farming, instead of a luxury or a convenience.

Stations and Toll Messages

In 1940 there was a net gain in number of telephones added to our system of 1648 stations or 5.8 per cent. This is the largest gain from operations for any year since this company began in 1927 and compares with a net gain of 1195 telephones in 1939. In addition 391 stations were added during the year by purchase. We have now recovered 101 per cent of our maximum losses which followed 1930 and with the addition of stations purchased during the last several years, we had connected to the forty-six exchanges of this company on December 31, 1940, a total of 30,217 telephones, which is a new peak in stations.

The volume of long distance traffic continued to exceed previous records in total number of calls. During 1940 our traffic department completed 96.4 per cent

of all calls offered, or a total of 1,387,603 toll messages, which is an increase of 114,799 calls or 9 per cent over the year before.

Operating Revenues

Revenue from subscribers stations increased \$59,721 and net revenues from long distance messages increased \$19,606 for the year 1940. Total operating revenues increased \$79,532 or 7.92 per cent to a new high total revenue figure for the year of \$1,084,236.53.

Operating Expenses

Maintenance expenses increased \$7,525 or 6.12 per cent, while traffic expenses increased \$8,062 or 6.86 per cent. A large portion of the increase in both of these departments was due to a new wage scale effecting all employees of the company as of May 1, 1940. At present all traffic and commercial department employees are working on a forty hour week, while the plant department employees continue to work forty-four hours per week. There was a further small increase in the total payroll for plant department employees subsequent to October 26, 1940, due to payment as overtime for all hours in excess of forty hours per week worked. Because of the limited number of men employed at the majority of our exchanges, it appears advisable from a service and operating standpoint to continue plant department employees on a forty-four hour per week basis.

Commercial Expenses increased for the year by \$6,280 or 8.45 per cent.

General Office Expenses increased \$2,366 or 5.74 per cent and Other Operating Expenses increased \$2,578 or 8.45 per cent.

All operating expenses for the year, excluding taxes and depreciation, amounted to \$413,342, an increase of \$26,812 or 6.94 per cent.

The operating ratio, which is the ratio between total operating expenses, including taxes and depreciation, and total revenues, was 73.7 per cent, which is slightly less favorable than the operating ratio of 71.9 per cent for 1939.

This is due entirely to the fact that there was a very large increase in the provision for federal taxes for the past year.

Depreciation

Annual charges against operating revenues, for depreciation of plant and equipment, in the total amount of \$219,306 were made for the year 1940. This is at the rate of 4.5 per cent of the average total value of the telephone plant of this company, which is the same rate of depreciation used in the previous year. There was an increase in the total provision for yearly depreciation of \$12,617, which increase is due to the fact that during the year additional property was purchased with a total plant value of \$83,720 and net additions were made to plant totaling \$171,384, both items of which were subject to their proportionate amount of depreciation.

The balance in the reserve for accrued depreciation account increased during the year \$104,677. Of this amount \$72,289 was the net remaining from the total monthly charges against operations to provide for depreciation. The sum of \$25,452 was added to the depreciation reserve by reason of purchase of additional property and is a book entry for which an equal liability exists in the form of accrued depreciation existing in the property purchased. The remaining net additions to the reserve account were by reason of salvage and miscellaneous property sold. The total amount in the reserve for accrued depreciation on December 31, 1940, was \$432,582, which represents 8.66 per cent of the total value of the fixed capital of this company as of that date. In the opinion of the Management, the amount in the reserve, for accrued depreciation should be at least fifteen per cent of the total value of the property or an amount approximating \$750,000, inasmuch as the balance in the reserve for accrued depreciation should at all times represent the difference between the present depreciated value of the property and its cost new.

Taxes

The largest increase in expenses for the year occurred by reason of sharply mounting taxes and especially the provision for increased federal income and excess profit taxes. For 1940 there was set aside for all forms of taxes \$166,417, which is an increase of \$37,226, or 28.8 per cent over the 1939 provision for taxes. The provision for federal income taxes was increased by \$28,766 due to an increase in the corporate income tax rate from 18 to 24 per cent. Excise taxes, which are based on total revenues, increased \$2,170, and capital stock taxes were boosted by \$1,147. The sum of \$5,000 was set aside for the new excess profits tax.

It is apparent that still further increases in taxes in the immediate future will take an ever increasing amount of our total net operating revenue.

Net Income

Total fixed charges for interest and amortization of the discount on the thirty year bonds of the company amounted to \$79,041 and was earned 3.61 times.

Net income available for dividends and surplus for the year 1940 amounted to \$205,992, a decrease of \$514 from the year 1939. Dividends on preferred stock of the company in the total amount of \$82,770 were paid during the year and were earned 2.49 times, and there remained \$123,221 available for common stock dividends and surplus, as compared with \$120,628 for the previous year. A dividend of $77\frac{1}{2}\text{¢}$ per share on the \$10 par value common stock was paid for the year 1940. This is equivalent to a dividend of \$7.75 on the previous \$100 par value common stock and compares with a dividend of \$7.00 per share paid on this class of stock for the year 1939. In addition a balance of \$13,171 was transferred to surplus.

Financial

In the spring of 1940 the Management proposed to the stockholders of the company, a plan for refinancing the company's outstanding 7% preferred stock so

that the dividend rate would be more nearly in line with current interest-bearing obligations. The stockholders of this company at a Special Meeting held on March 28, 1940, unanimously approved of the plan and the Articles of Incorporation of the company were ammended as of July 1, 1940, to provide for a 5% preferred stock issue. All 7% preferred stockholders were given the right to exchange their 7% stock for the new 5% preferred issue and receive in addition thereto \$2.50 per share in cash. 6,466 shares out of a total of 8,763-1/2 shares of outstanding 7% preferred stock were exchanged for the 5% issue on the above basis. The remaining 2,297-1/2 shares were called for redemption at their call price of \$107.50 per share, as of July 1, 1940.

This company has had pending before the Public Utilities Commission of Ohio since June 1939, an application for capitalizing net additions, which application has not yet been passed upon. The Commission, however, did issue an iterim order permitting the company to issue and sell 1,236-1/2 shares of additional 5% preferred stock to reimburse the treasury for monies expended for net additions. On July 1, 1940, the company sold to two Insurance Companies at private sale, 3,500 shares of 5% preferred stock at a price of \$105 net, to provide funds for redeeming the unexchanged 7% preferred stock and to reimburse its treasury for previous capital expenditures from cash.

The total expenses of the refinancing of the company's 7% preferred stock, including the money paid to stockholders in connection with the exchange, the premium paid for calling of the unexchanged shares and the total expenses in connection with the transaction amounting to a total of \$43,455.12 have all been charged against the surplus account of the company in the year 1940.

Property Purchased

As of July 1, 1940, pursuant to proper authority granted this company by The Public Utilities Commission of Ohio, the property and plant of The Weston

Home Telephone Company operating an exchange at Weston in Wood County, Ohio, was purchased for the sum of \$59,700 and 597 shares of 6% preferred stock issued in payment for the property. The Weston exchange territory is contiguous to our Bowling Green district and its purchase added 391 stations and some 20 miles of additional local toll line facilities.

Additions and Retirements to Plant

An aggressive program of plant improvements was carried on throughout the past year resulting in an expenditure for replacement, rearrangement, improvements and extensions to plant of \$495,407.

Plant with a total value of \$324,023 was retired from service during the year, which resulted in a net addition to plant, exclusive of property purchased, of \$171,384. The amount of the net additions for the year are grouped in the following major items of plant:

Land and Buildings	\$ 12,842
Central Office Equipment	43,373
Station Equipment	48,434
Exchange and Toll Lines	60,509
Other Plant and Equipment	<u>6,226</u>
Net Additions from Operations	\$ 171,384

On December 31, 1940, there was invested in telephone plant a total of \$4,997,133, which represents a capital investment of \$165.37 per telephone station. This compares with an invested per station figure of \$168.26 at the end of the year 1939.

During the past twelve months, manually operated exchanges at New Washington, Copley and Ashley were replaced with full dial automatic equipment housed in our own fireproof brick buildings. Work of rebuilding the exchange area at Greenwich was completed and the two competing telephone systems were consolidated

eliminating one of the few places yet remaining in the state of Ohio which had dual telephone service. Approximately six miles of special quadded toll cable was placed in service as the first unit of a thirty-five mile proposed toll cable from Port Clinton to Toledo. An additional unit of this toll cable is in process of erection and another main toll cable will be placed in service shortly between Norwalk and Monroeville. In addition to continuing our program for converting all manual exchanges to dial operation as rapidly as possible, an increasing amount of attention will be given to the installation of toll cables, replacing large groups of aerial toll lines and the further amplification of independently owned toll lines between our own exchanges and exchanges of connecting companies.

At the end of the year twenty-seven of the forty-six exchanges of this company were served by automatic central office equipment and 47.7 per cent of the total telephones owned by this company were dial operated.

Personnel

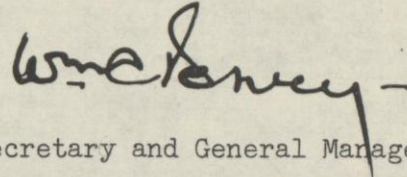
This company had in its employ at the end of the year 96 men and 205 women, exclusive of officers, salesmen and operators employed by agents. The total amount paid in wages to these employees for 1940 amounted to \$300,572, which is an increase of \$18,344 or 6.5 per cent over the total amount of the wages paid for the year 1939, excluding officers and officials.

We end the tenth consecutive year without any formal complaints on file, either before The Public Utilities Commission or any other regulatory body, as to the quality of our service or our rates. We consider this an indication of our public relations in the territory in which we serve.

One of the most valuable assets any company can have is a group of loyal, intelligent and conscientious employees and we wish to here record our sincere appreciation for the splendid co-operation of our employees during the past year.

Comparative detailed Financial Statements for the years 1939 and 1940 are attached hereto, together with a report of stations connected to the various exchanges of this Company.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Wm. C. Lowrey", with a horizontal line extending from the end of the signature.

Secretary and General Manager

NORTHERN OHIO TELEPHONE COMPANY

BELLEVUE, OHIO

REVENUES FOR TWELVE MONTHS ENDED DECEMBER 31, 1939 and 1940

	<u>Jan.1-Dec.31</u> <u>1939</u>	<u>Jan.1-Dec.31</u> <u>1940</u>
Telephone Operating Revenue:		
Subscribers Station Revenue	\$ 738,924.80	\$ 798,646.06
Service Stations	624.00	680.50
Private Line Service	3,019.55	2,923.60
Message Tolls	238,097.83	257,703.91
Telegraph Commission	1,351.87	1,402.77
Directory Advertising and Sales	17,444.75	18,132.43
Rent Revenue	10,187.45	10,733.06
Uncollectible Revenue	<u>4,944.94</u>	<u>5,985.80</u>
Total Operating Revenue	\$ 1,004,705.31	\$ 1,084,236.53
Other Income:		
Interest Income	\$ 317.99	\$ 33.72
Miscellaneous Income	<u>744.72</u>	<u>196.12</u>
Total Other Income	\$ 1,062.71	\$ 229.84



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NORTHERN OHIO TELEPHONE COMPANY - BELLEVUE, OHIO

OPERATING EXPENSES FOR TWELVE MONTHS ENDED DECEMBER 31, 1939 and 1940.

	<u>Jan.1-Dec.31</u> <u>1939</u>	<u>Jan.1-Dec.31</u> <u>1940</u>
Maintenance Expenses:		
Repairs of outside Plant	\$ 41,555.34	\$ 43,078.20
Repairs of Central Office Equipment	14,503.90	15,364.37
Repairs of Station Equipment	41,129.51	47,778.54
Repairs of Buildings and Grounds	4,199.46	3,698.17
Station Removals and Changes	16,977.13	15,684.48
Transmission Power	<u>4,548.59</u>	<u>4,835.27</u>
Total Maintenance Expenses	\$ 122,913.93	\$ 130,439.03
Traffic Expenses:		
General Traffic Supervision	\$ 2,027.30	\$ 2,148.13
Operators' Wages	107,929.60	116,064.25
Central Office Expenses and House Service	<u>7,655.21</u>	<u>7,462.51</u>
Total Traffic Expenses	\$ 117,612.11	\$ 125,674.89
Commercial Expenses:		
General Commercial Administration	\$ 8,264.82	\$ 8,682.60
Advertising	2,665.43	2,210.97
Sales Expense	25,973.17	26,960.71
Local Commercial Administration	25,799.24	29,181.86
Directory Expense	<u>11,578.10</u>	<u>13,524.65</u>
Total Commercial Expenses	\$ 74,280.76	\$ 80,560.79
General Office Expenses:		
Executive Department	\$ 20,355.04	\$ 21,715.82
Accounting Department	18,408.11	18,790.11
Law Department	<u>2,445.00</u>	<u>3,068.85</u>
Total General Office Expenses	\$ 41,208.15	\$ 43,574.78
Other Operating Expenses:		
Insurance	\$ 1,328.72	\$ 1,352.41
Operating Rent	10,320.63	9,872.47
Other Operating Expenses	<u>18,865.66</u>	<u>21,868.02</u>
Total Other Operating Expenses	\$ 30,515.01	\$ 33,092.90
Total Operating Expenses	\$ 386,529.96	\$ 413,342.39

NORTHERN OHIO TELEPHONE COMPANY - BELLEVUE, OHIO

INCOME AND EXPENSE STATEMENT FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1939 and 1940

	<u>Jan.1-Dec.31</u> <u>1939</u>	<u>Jan.1-Dec.31</u> <u>1940</u>
Operating Revenue	\$ 1,004,705.31	\$ 1,084,236.53
Operating Expense	386,529.96	413,342.39
Depreciation	<u>206,689.31</u>	<u>219,306.35</u>
Net Operating Revenue	\$ 411,486.04	\$ 451,587.79
Operating Taxes	<u>129,190.46</u>	<u>166,416.91</u>
Net Operating Income	\$ 282,295.58	\$ 285,170.88
Other Income	<u>1,062.71</u>	<u>229.84</u>
Net Income Available for Fixed Charges	\$ 283,358.29	\$ 285,400.72
Fixed Charges:		
Interest on Funded Debt	\$ 71,715.00	\$ 74,340.00
Other Interest Deductions	308.15	368.19
Amortization of Discounts on Funded Debt	<u>4,830.87</u>	<u>4,700.76</u>
Total Fixed Charges	\$ <u>76,854.02</u>	\$ <u>79,408.95</u>
Net Income	\$ 206,504.27	\$ 205,991.77
Preferred Dividend Paid	\$ 85,876.50	\$ 82,770.13
Common Dividend Paid	<u>101,686.00</u>	<u>110,050.00</u>
Income Balance	\$ 18,941.77	\$ 13,171.64

Total Telephones in Service January 1, 1940 28,178
Total Telephones in Service December 31, 1940 30,217
(Including 391 Stations Purchased)

NORTHERN OHIO TELEPHONE COMPANY - BELLEVUE, OHIO

TELEPHONE PLANT INSTALLED FOR TWELVE MONTHS ENDED DECEMBER 31, 1940

Telephone Plant Installed January 1, 1940
Undistributed Cost of Property
Additions By Purchase

\$ 4,754,137.06
12,103.15
83,720.68

Changes in Telephone Plant

	<u>Debits</u>	<u>Credits</u>	<u>Balances</u>
Organization	\$	\$ 2,220.00	\$ 2,220.00
Right of Way	2,218.62	1,779.19	439.43
Land	323.86		323.86
Buildings	19,622.00	7,104.34	12,517.66
Central Office Equipment	72,796.81	29,423.43	43,373.38
Station Apparatus	165,374.16	117,739.40	47,634.76
Station Installations	25,850.16	25,050.86	799.30
Drop and Block Wire	24,431.93	19,340.42	5,091.51
P.B.X. Exchanges	2,301.62	1,835.50	466.12
Booths and Special Fittings	108.53	664.83	556.30
Pole Lines	72,839.84	58,094.05	14,745.79
Cable	62,412.41	20,192.39	42,220.02
Aerial Wire	26,366.39	27,915.00	1,548.61
Underground Conduit	4,819.02	523.48	4,295.54
Office Furniture and Equipment	4,908.51	4,139.50	769.01
Vehicles and Other Work Equipment	11,033.11	\$ 8,000.73	3,032.38

Gross Additions and Deductions \$ 495,406.97 \$ 324,023.12

Net Telephone Plant Installed this Year

171,383.85

Telephone Plant Installed December 31, 1940

\$ 4997,133.44

NORTHERN OHIO TELEPHONE COMPANY - BELLEVUE, OHIO

BALANCE SHEET STATEMENT AS OF DECEMBER 31, 1940.

Assets

Telephone Plant	\$ 4,997,133.44
Sinking Fund	7,083.35
Company Owned Securities	205.00
Cash	62,450.27
Working Funds	565.00
Notes Receivable	598.76
Due from Customers and Agents	73,961.02
Accounts Receivable	847.71
Material and Supplies	115,753.58
Other Current Assets	1,150.00
Prepaid Rent	818.23
Prepaid Insurance	2,096.40
Discount on Funded Debt	115,560.35
Other Deferred Debits	<u>2,282.21</u>
Total Assets	\$ 5,380,505.32

Liabilities

Common Capital Stock	\$ 1,420,000.00
6% Preferred Capital Stock	483,700.00
5% Preferred Capital Stock	998,000.00
Funded Debt	1,652,000.00
Premium on Capital Stock	17,535.00
Accounts Payable	57,386.28
Matured Interest Reservation	30,975.00
Advance Billing	4,410.63
Taxes Accrued	158,543.42
Other Accrued Liabilities	2,004.30
Depreciation Reserve	432,582.12
Unappropriated Surplus	110,196.93
Income Balance	<u>13,171.64</u>
Total Liabilities	\$ 5,380,505.32

NORTHERN OHIO TELEPHONE COMPANY - BELLEVUE, OHIO

STATION MOVEMENT OF ALL EXCHANGES

	Jan.1 1930	Oct.1 1933	Jan.1 1940	Dec.1 1940	Jan.1 1941	Dec. Gain	1940 Gain
Ashley	340	200	247	253	252	-1	5
Attica	407	218	286	289	290	1	4
Bellevue	2147	1551	1944	2022	2032	10	88
Berlin Heights	160	127	211	220	217	-3	6
Bowling Green	1869	1322	1792	1862	1867	5	75
Brunswick	196	119	200	216	218	2	18
Cheshire-Lewis Center	239	180	160	170	170	0	10
Clyde	906	647	901	975	983	8	82
Copley	260	177	308	507	521	14	213
Crestline	1212	800	1033	1057	1068	11	35
Curtice	182	92	191	190	182	-8	-9
Delaware	2837	2224	2815	2936	2951	15	136
Elmore	464	231	306	325	325	0	19
Galion	1840	1445	1957	2098	2113	15	156
Genoa	363	225	332	362	360	-2	28
Granger	127	75	109	112	116	4	7
Greenwich	503	401	403	406	406	0	3
Haskins	92	50	71	75	78	3	7
Huron	455	372	553	594	588	-6	35
Kelley Island	90	63	71	70	67	-3	-4
Kilbourne	137	102	119	119	122	3	3
Marblehead	266	188	233	244	241	-3	8
McComb			458	479	477	-2	19
Medina	1750	1341	1791	1861	1872	11	81
Milan	290	207	246	260	263	3	17
Monroeville	424	270	348	368	372	4	24
New London	476	327	492	529	532	3	40
New Washington	395	181	231	235	235	0	4
North Baltimore	515	290	394	415	419	4	25
Norwalk	2571	2239	2777	2912	2926	14	149
Oak Harbor	732	446	590	619	622	3	32
Oberlin	1812	1614	1971	2031	2038	7	67
Ostrander	283	159	172	184	185	1	13
Pemberville	342	125	176	196	198	2	22
Plymouth	312	201	253	267	266	-1	13
Port Clinton	1379	1020	1480	1607	1612	5	132
Put In Bay	129	145	150	152	154	2	4
Radnor	140	96	102	105	106	1	4
River Styx	151	78	107	112	114	2	7
Sharon Center	196	105	151	151	149	-2	-2
Tontogany	87	51	85	87	87	0	2
Valley City	193	110	148	151	151	0	3
Wakeman	215	166	209	208	206	-2	-3
Wayne	278	87	142	153	154	1	12
Weston			391	391	393	2	2
Willard	1473	1149	1463	1518	1519	1	56
	29235	21216	28569	30093	30217	124	1648

